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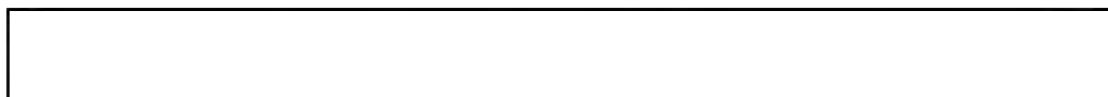
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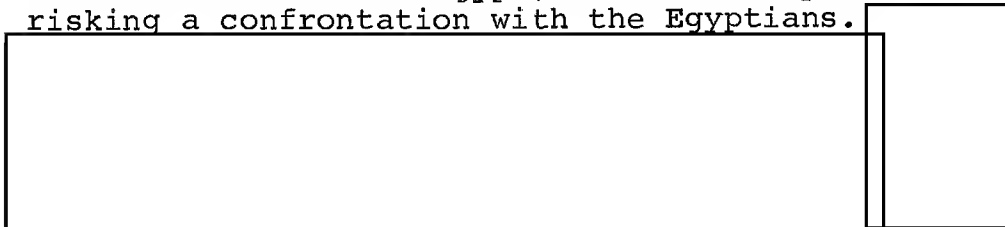
EGYPT-LIBYA: President Sadat is attempting to head off the Libyan "march on Cairo," President Qadhafi's latest effort to dramatize his demand for complete and immediate union with Egypt.

Radio Cairo has broadcast Sadat's direct appeal to Qadhafi that the march be canceled in the interests of the "seriousness, objectivity, and responsibility" that should govern the ongoing consultations on merger. Sadat stated that the march is "not a proper revolutionary measure" and could open the door for "enemies of the revolution" rather than facilitate the process toward union. The Libyan motorcade began yesterday morning and is scheduled to arrive in Cairo by 23 July.



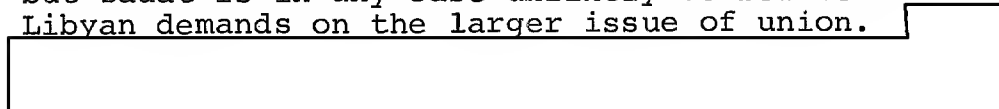
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Sadat's warnings will probably have little impact on Qadhafi, who appears intent on underscoring his differences with Egypt, even to the point of risking a confrontation with the Egyptians.



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In an attempt to avoid an incident and save both sides from more embarrassment, Sadat offered, after the procession began, to allow the marchers to enter Egypt; he will send an Egyptian delegation to meet them at Mersa Matruh, well away from Cairo. Qadhafi may not be satisfied with this, but Sadat is in any case unlikely to bow to the Libyan demands on the larger issue of union.



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SOUTH VIETNAM: Some strains are developing at the top levels of the Thieu government. Prime Minister Khiem reportedly is having trouble with President Thieu's closest advisers, particularly Hoang Duc Nha and Nguyen Van Ngan.

Khiem's influence with Thieu has been dropping for some time, and the Prime Minister is now complaining that few matters are referred to him for action. Thieu recently rejected Khiem's choices for several government positions that normally fall within the prime minister's jurisdiction, and selected proteges of Nha instead. Khiem claims he decided against running for the Senate next month because his candidacy would have been exploited to arouse Thieu's suspicions about his ambitions to succeed the President.

Rivalries among the men around Thieu have been present during most, if not all, of the President's tenure. Since the government's stability depends essentially on the political adroitness of Thieu himself, the maneuvers of his lieutenants are not likely by themselves to undermine the regime. Such frictions are, however, likely to hamper the government's effectiveness in dealing with the complex issues of the cease-fire period.

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SOUTH VIETNAM: Saigon is having difficulty formulating a program to combat continuing economic problems.

The modern sector of the economy has been in recession since the 1972 Communist offensive, and continued uncertainty following the cease-fire has prevented much of an upturn. Retail prices in Saigon have gone up nearly 10 percent in the last month. Nearly all commodities are becoming more expensive, but pressures on the prices of rice and imported goods have been the most severe and visible.

The difficulties in arriving at some solution are reflected in recent meetings of the National Council on Reconstruction and Development, established about a month ago to oversee economic policy and to improve economic planning, coordination, and cooperation within Saigon's unwieldy bureaucracy. Consisting of all of the senior officials with responsibility for economic matters, the council has broad powers--subject to President Thieu's approval--and is intended to be a sort of superministry.

On 12 July the council was able to agree on several new measures, the most important being a 25-percent pay increase for government workers and the military, to be announced later this week. Prices of petroleum products and sugar will be raised at the same time. The council could not work out the thornier problem of a rice policy, however, and deferred this for future decision. Another unresolved problem is popular confusion over the value-added tax that went into effect on 1 July. Moreover, efforts to step up tax collections have caused considerable complaints.

The major short-term obstacle to the establishment of an effective program is a developing split in the council between those who favor present policies and a newly emerging group that advocates reverting to more controls. Several influential officials, including Hoang Duc Nha, Thieu's closest adviser, favor more government control of the economy and reportedly recommended such measures as

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comprehensive price controls, rationing of key commodities and bans on some luxury goods, government take-over of rice distribution, abolition of the value-added tax, and major restrictions on foreign investment. Such departures from existing policies have been headed off for the moment largely by the efforts of the Minister of the Economy, Phan Kim Ngoc, and the Finance Minister, Ha Xun Trung. They have indicated that they fear increased corruption and profiteering should the economy revert to widespread government control. There is a significant chance that such controls might be reimposed, however, because Nha and his allies appear to be exerting a growing influence in economic matters. The final decision will be up to Thieu, whose position is unclear.

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CHILE: President Allende is making little perceptible progress in easing tensions, and he may soon face new challenges from militant civilian opponents.

Allende's attempt to open a formal dialogue between the Popular Unity parties and the Christian Democrats has reached an impasse over preconditions. The Communists, who are vigorously pursuing their recently adopted tough line toward the opposition, apparently have joined the Socialists in impeding Allende's effort to work out a new *modus vivendi*. The rhetoric emanating from the leaders of both Marxist parties has become increasingly inflammatory.

On the extreme right, the Fatherland and Freedom movement has announced it will go underground and use "all available methods" to combat the regime, in hopes of provoking the armed forces into moving against the government. Spearheaded by the truck owners' federation, private enterprise and professional "guilds" reportedly are considering a last-ditch effort of their own to galvanize the military into action. The guilds plan to paralyze the country with a nationwide strike tentatively scheduled to begin next week.

Fatherland and Freedom's brazen threats are more likely to subject it to further repressive measures than to accomplish its goals, but the outcome of a repetition of last October's guild strikes is less predictable. The armed forces remain much concerned over the continued arming of the government's civilian supporters and over suggestions by some Popular Unity leaders that soldiers should evaluate the constitutionality of their officers' orders before obeying.

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THAILAND-BURMA: A major step forward in the campaign to halt the flow of narcotics out of Burma was taken with the capture of a principal southeast Asian opium smuggler, Lo Hsing-han, by Thai police on 17 July.

Lo had fled into Thailand to avoid a Burmese Army attack against his camp, which is located inside Burma a few miles north of the Thai border. Thai officials had been alerted that Lo might move into Thailand and the police were deployed accordingly.

Lo's arrest has thrown his trafficking apparatus into further disarray. Earlier this month, Burmese officials arrested Lo's brother--who was reportedly the financial mastermind of the operation--and another key official of Lo's organization. Lo had important competition from ex-KMT Generals Li and Tuan, who are based in northern Thailand, and the flow of narcotics out of Burma will not be stopped completely. The effectiveness of the Burmese suppression efforts, however, may have an intimidating effect on other traffickers in the area.

Whether the Thai choose to jail Lo or turn him over to the Burmese is a decision that can only be made by Prime Minister Thanom and Deputy Prime Minister Praphat. The Thai leadership does not appear

other dissident groups will now choose to go their own way again remains to be seen but, for the moment, Lo's capture will make it difficult for them to unite effectively in opposition to the Burmese Government.

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IRAQ: The ruling Baath Party has agreed to form a national front with the Iraqi Communist Party. The way has been left open for the Kurds to join at a later date.

The agreement, which was signed on 17 July by President Bakr and the Communist first secretary, culminates a long period of negotiation. It is being hailed by both parties as a major step toward national unity and the realization of common goals. The text of the joint statement deals only with broad generalities of principle and intent. It gives no indication of the working relationship of the two parties in any future government.

Inclusion in a national front has long been one of the primary goals of the Iraqi Communist Party and has been openly espoused by the Soviet Union. The highly publicized agreement will give the Communists increased status and enhance their potential for attracting popular support. The Baathists may have decided to form a front with the Communists at this time to demonstrate national unity in the wake of the coup attempt. Based on past experience, however, the Communists will not be allowed to endanger Baathist supremacy. [REDACTED]

SOUTH KOREA: Export sales are continuing to expand at a rapid rate, with the US remaining the principal customer. Following a 52-percent increase in 1972, South Korea's exports were up 106 percent for the first five months of this year over the corresponding period of last year, reaching \$1.1 billion. Sales to the US were up by 66 percent to \$416 million, but the US share of Korea's exports fell.

South Korea's trade deficit, however, increased as imports were up 63 percent in the first five months of 1973 over the comparable period of 1972, surpassing \$1.5 billion. Imports from the US were up 70 percent, and the US share of all imports increased from 29 percent to 31 percent. This resulted in a \$63-million deficit for South Korea in its trade with the US for the period. The US gain resulted in part from deliberate efforts by Seoul to encourage imports from the US. In view of South Korea's extensive new Heavy and Chemical Industry Development Plan, prospects for US sales to South Korea remain bright for the next several years.

Although South Korea's trade deficit worsened, the over-all balance-of-payments position continued to improve. This was due to large increases in invisible receipts, mostly from tourism, and an increase in net transfer receipts. As a result, preliminary figures indicate that South Korea's current account deficit decreased by \$62 million in the first half of 1973 compared to the first half of 1972, and that foreign exchange reserves rose \$154 million. [REDACTED]

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ICELAND: A more flexible attitude toward the US-manned NATO base at Keflavik on the part of some government leaders augurs well for retention of the facilities in a modified form.

On 13 July, Foreign Minister Agustsson outlined his government's latest bargaining position for the forthcoming negotiations. Although his demands were considerably greater than those expressed last fall, they constitute the first encouraging remarks on the subject in nearly two months. Agustsson called for the removal of as many defense force functions "as possible," and for a reduction of up to one third of the military personnel over the next five years. The functions to be terminated should not, according to the Foreign Minister, "impair the effectiveness of the defense force," and the staff can be augmented by American and Icelandic civilians. Moreover, the Foreign Minister has tried unsuccessfully to discourage attempts by the Communists and leftists in the government to include their people on the Icelandic negotiating team.

Prime Minister Johannesson also projected a more relaxed attitude toward the base in an interview published on 14 July. Johannesson emphasized that the coalition agreement did not stipulate unconditionally that the defense force had to leave Iceland before the end of his government's term. This contrasts sharply with demands by other government officials, following Britain's introduction of warships into the Cod War on 18 May, for the removal of all US military personnel and Iceland's withdrawal from NATO.

A belief that the coalition government's two Communist ministers are divided over tactics on the base issue may have encouraged Progressive Party leaders to be more forthcoming. The main aim of Fisheries Minister Josefsson is to resolve the fishing dispute with the British. Industries Minister Kjartansson, on the other hand, stakes his political career on the troop issue, even if it means toppling the government.

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The Progressive leaders may see an opportunity to seize the initiative from the Communists, who capitalized on popular outrage over Britain's role in the fishing dispute. Nevertheless, base negotiations remain linked in Icelandic minds to the unresolved fishing dispute, and unless the latter can be resolved before base talks commence in September, Reykjavik's position could harden again.

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Guyana: Incomplete returns from last Monday's elections indicate that the ruling People's National Congress has retained power; Prime Minister Burnham may have exceeded his announced goal of a two-thirds majority in parliament. The extent of rigging is not yet known. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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